

Unrated

| | |
|----------------------|-----------------|
| Current Price | S\$0.154 |
| Fair Value | S\$0.230 |
| Up / (downside) | 49.4% |

Stock Statistics

| | |
|----------------------|-----------|
| Market cap | S\$76.4m |
| 52-low | S\$0.048 |
| 52-high | S\$0.191 |
| Avg daily vol | 7,358,127 |
| No of share | 496.2 |
| Free float | 52% |

Key Indicators

| | |
|--------------------|----------|
| ROE 16 | 51.0% |
| ROA 16 | 27.3% |
| P/BV | 2.1x |
| Net gearing | Net cash |

Major Shareholders

| | |
|---------------------|--------|
| Sydney Yeung | 18.28% |
| Glenn Fung | 13.44% |

Historical Chart



Source: Bloomberg

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Mineral Assets Not Reflected in Share Price

- **Background.** GSS Energy Limited has two businesses, precision engineering (PE) and oil & gas (O&G) exploration and production. The PE business comprises of electronic manufacturing services in Batam, precision shafts manufacturing in Singapore and machining in Changzhou, China. The energy business pertains to production of O&G from a 47.63 sq. km operation area (Trembul area) in Java, Indonesia.
- **Positive momentum at the PE business in 1H17?** GSS has reported sequentially higher PE revenue, from S\$15.6m in 4Q15 to S\$16.9m in 1Q16, to S\$20.5m by 4Q16. On a full year basis, PE revenue grew by 20% to S\$75.7m in FY16. As per its annual report, GSS has been receiving increased orders from customers of the factory in Batam and the increased orders are expected to continue into 2017 with new projects in the pipeline.
- **Energy production to kickstart in 2H17.** GSS has entered into an operation agreement with stated-owned PT Pertamina in the Trembul area, where PT Pertamina will pay GSS the operating costs of producing all oil & gas in the area. GSS will be entitled to 23.5% of the petroleum and 31.4% of the natural gas produced, after accounting for operating costs. GSS's cost of participating in this project is that it has to commit to an exploration and development programme for an initial three years amounting to US\$7.86m. The Trembul area agreement is for a period of 15 years and 24.3m stock tank barrels of contingent resources at depths up to 800 metres have been estimated by a geologist in a Qualified Person's Report in 2015.
- **Net cash balance sheet.** As of December 2016, GSS has net cash of S\$14.8m, equivalent to about 3.0 cents per share. During 2015, GSS reported a net loss mainly due to S\$34.8m of impairment from a previous oil & gas venture which is unlikely to recur. With the new operation agreement with PT Pertamina, GSS will be able to enjoy cost recovery which mitigates against any down swing in oil and gas prices.
- **Potential valuation of S\$0.230 per share.** The PE business made S\$8.0m in FY16, excluding S\$2.4m of non-operating gain (i.e. government compensation). Pegging at 10x P/E, we derive a rough valuation of around S\$80m (S\$0.161 per share) for the PE business. Assuming a narrow US\$1.0 (S\$1.40) net margin after development costs for these 24.3m barrels, the energy business may be worth S\$34.0m, leading to a valuation of S\$114.02m (S\$0.230 per share) for the group. As we are assuming a 2% margin for the energy business, we argue that we have sufficiently factored in any conglomerate discount for the group, especially when a higher multiple is possible for the PE business. However, we refrain from assigning a rating, as we have only done limited work at this juncture. Risks include whether the 24.3m barrels can be extracted over the 15-year term.

| Key Financial Data (S\$ m, FYE Dec) | 2012* | 2013* | 2014* | 2015 | 2016 |
|--|-------|-------|-------|-------|------|
| Sales | 89.5 | 126.8 | 69.0 | 67.6 | 75.7 |
| Gross Profit | 8.8 | 9.5 | 11.7 | 18.1 | 17.9 |
| Net Profit | 0.36 | 0.45 | 2.1 | -18.8 | 13.1 |
| EPS (cents) | 0.28 | 0.34 | 0.78 | -3.97 | 2.71 |
| EPS growth (%) | na | 21.4 | 129.4 | Nm | nm |
| PER (x) | 55.0 | 45.3 | 19.7 | Nm | 5.68 |
| Total Assets | 30.3 | 26.4 | 28.6 | 38.1 | 57.5 |
| Total Liabilities | 22.3 | 17.7 | 13.0 | 24.4 | 19.6 |
| NTA/share (cents) | 5.8 | 6.3 | 4.6 | 2.3 | 7.3 |

Source: Company, NRA Capital *Based on financial year ended 31 August.

GSS Energy Limited

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